

## **Annual General Meeting 2020**

### **Summary of Responses, Questions and Answers**

#### **Introduction**

Thank you for your support in engaging with our electronic AGM. 2020 is already full of some very different ways we're doing things and an AGM by email or letter is not the ideal way we would like to engage with you the shareholders. However, we were very pleased with the response and how you rose to the challenge of this new way of doing things. With eighty responses we can confirm the meeting was quorate.

Given the level of response and support the shop has received during the C19 crisis one conclusion we can all draw is that the 'show must go on' so we are pleased with your support and also that whatever happens we will continue with our plans for this year continually reviewing and adapting them to meet the needs of the community. Our three Year Strategy is available to view on the website and as this and our Annual Plan were prepared before the Coronavirus the committee will be reviewing these on a regular basis.

This response summarises the topics where we asked for your feedback and the general question areas you raised. It is rather longer than we envisaged given the enthusiasm of two members asking very detailed questions relating to the Financial Accounts.

- Resolutions
- Member's Strategy
- Houghton & Wyton community Fund (your questions were sent to the original trustees of the Charity to answer and we forward their response)
- Volunteers and the Committee
- The Financials

#### **Conclusions and Next Steps**

1. As we have already intimated, interest will be paid when the Committee are confident that they have a more certainty regarding the full impact of Covid 19 on this year's profitability and cash flow
2. A new share offer will be launched to attract new members to join Houghton & Wyton Community Shop Ltd
3. A special member's meeting will be called in the autumn to agree the new resolution relating to the share withdrawal process
4. Following this and subject to finances being on budget we aim to open a share withdrawal window later in the year.

## Resolutions

Thanks to the 26 % of you who responded which compared favourably with previous AGMs. In the most recent email you will have received from us we shared the results to the resolutions which were confirmed as.:

| Resolution No  | Agree % of respondents | Disagree % | Abstain |
|--|------------------------|------------|---------|
| <b>1</b> This Meeting <b>RESOLVES THAT</b> , the Balance sheet as at 31 December 2019 and Profit & Loss Accounts for the year ending on 31 December 2019 along with Accounting Policies, Schedules, Explanatory Notes forming parts of financial statements are hereby confirmed and adopted.  | 95%                    | 1%         | 4%      |
| <b>2</b> This Meeting <b>RESOLVES THAT</b> , the committee exercise the power contained in the Co-Operative and Community Benefit Societies Act 2014 and in 6.2 of the Houghton & Wyton Community Shop Ltd Model Rules, to not appoint Auditors and if required are given the authority to seek and to use an Independent Examiner to review the Financial Accounts for 2020. <sup>1</sup> | 100%                   |            |         |
| <b>3</b> This Meeting <b>RESOLVES THAT</b> , if through a change of circumstances the committee feel it would be in the member's interests to Appoint Auditors to review the Financial Accounts for 2020, they be authorised to do so and to set their remuneration.   | 100%                   |            |         |
| <b>4</b> This Meeting <b>RESOLVES THAT</b> an interest payment of 2.75% of the value of the shareholding held on 31 <sup>st</sup> December 2019 be paid to all shareholders once the influence of the Covid 19 epidemic on the financial position of H&WCS is known  | 99%                    | 1%         |         |

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<sup>1</sup> The provisions of the Co-operative and Community Benefit Societies Act 2014, which regulates how Community Benefit companies are operated, recognises that it is not necessary for an organisation to incur the expense of an annual audit. However this decision, as defined by the statute and reflected in our Model Rules 6.2, rests with the membership hence the requirement for resolution 2. The rules also allow for (6.4) the Management Committee to fill a vacancy prior to the next following AGM i.e. in relation to the preparation of the 2020 accounts which again is reflected in resolution 2. If the Committee were to decide that it was appropriate for the accounts to be audited then they would have to appoint an independent examiner in accordance with section 6.3 of the Model Rules i.e. a qualified auditor. The Act defines a qualified auditor as "a person eligible for appointment as a statutory auditor under Part 42 of the Companies Act 2006".

While not subject to a formal audit, our annual accountants are prepared by George Hay Partnership LLP, a practising member firm of the Institute of Chartered Accountants in England and Wales, in accordance with applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice).

## **Member's Strategy**

### **Membership Aims**

As a Committee we have agreed that our membership aims are:

1. To keep a broad shareholder/member base.
2. Any share interest and withdrawal is reliant on the shop meeting its financial reserve obligations
3. Our commitment to the community comes ahead of shareholder benefits
4. Any shareholder withdrawal process is orderly and fair to all members

### **Share Withdrawal**

As a committee we have been discussing and researching the topic of Share withdrawals since last November.

One basic principle is that:

*“The funds available for share withdrawals will always be subject to limits to be determined by the committee having regard to the financial reserves position of Our Shop in any given trading year.”*

We asked you if you agreed with us that ‘first come first served’ seems unfair and uncharacteristic for a Community Benefit Society and that a fairer process is to have a period where those individuals wishing to withdraw their membership apply between 2 set dates, i.e. an open window. Someone asked why we felt a first come first served was unfair – we believe it is unfair as it currently stands due to the fact if you are away, ill, or perhaps not on email when the ‘open’ sign is put up you are disadvantaged. The other issue is how you determine first come, first served if perhaps a number of applications are delivered simultaneously and the total amount to be withdrawn exceeds the funds available.

From those who commented on the proposed strategy two thirds of members agreed with the committee’s recommendation and one third disagreed feeling it was unfair to change the Model Rules after shares had been bought in 2017.

A question was raised regarding the legal status of any change – as Houghton & Wyton Community shop is regulated with the Financial Conduct Authority any amendment the members approve by Resolution has to be agreed by the FCA.

**Conclusion: based on the feedback received we will put a formal Resolution to the Members this Autumn at an EGM which we hope will be face to face but being cautious - might be electronic.**

### **Other Share Related Questions**

- Dilution of Shareholding: Rule 8.6 from Our Model Rules states “On the solvent winding up of the society, holders of shares will have no financial entitlement beyond the payment of outstanding interest and repayment of paid up share capital”. Dilution could be an issue in the highly unlikely event of the assets of the property and business not covering the value of shares (currently £341,000 plus interest)

- Share interest – a couple of you raised concerns about paying this during 2020 given the uncertain times. The committee have made a commitment to pay interest this financial year and as things stand will still do so. They are continuing to review the most appropriate time to do this. The interest payment will be 2.75% of your share holding on 31/12/19. This is 2% above bank base rate at the time.
- New Share Offer - the prospectus and documentation required for a new share has been prepared and will be launched this year.
- Upon death shares are transferred to the beneficiary(s) and they have the same rights as any other shareholder.
- The idea of making a scrip issue (also called bonus or capitalisation issue) raised by a member is not appropriate. The scrip issue mechanism is sometimes used by a company as an alternative to paying a dividend to ensure that shareholders, who have continued to support a company with no financial benefit i.e. dividend, are not disadvantaged if that company then increases its share capital. We do not pay dividends but make interest payments and our share price is fixed at £10. In the case of public companies the share price varies as determined by the market assessment of the worth of the company which can result in individual shareholders making significant gains on the sale of their shares.

**Houghton & Wyton Community Fund** (Response from the founding Trustees of the Charity)

Shareholders will recall that the creation of the Community Fund originated in the statement, in the 2017 Share Issue Offer Document, of the intention to donate surplus profits of the Shop to a community charity to be formed to benefit people in need who live in or are closely connected with the parish.

The first Trustees of the Community Fund (Guy Morton and Simon Summers) hold office by virtue of the registration of the Fund by the Charity Commission in 2019. The constitution of the Community Fund follows the Charity Commission's "Foundation" model. This model provides for the possibility of a nominated Trustee, and the Trustees thought it appropriate to include a right for the Community Shop to nominate one trustee in view of the continuing importance of the relationship with the Shop. The Shop Committee has nominated Lesley Craig as a Trustee in exercise of this right. Under the Foundation model there are no non-Trustee members of the Community Fund, and there is therefore no provision for outside voting; further new appointments of Trustees, up to a overall maximum of five Trustees, are a decision for the Trustees. The Trustees are at present considering the possible exercise of this power of appointment; they will welcome suggestions and comments, which can be sent to them by e-mail at [hwcommunityfund@gmail.com](mailto:hwcommunityfund@gmail.com) or by post c/o The Laurels, Thicket Road, Houghton PE28 2BQ.

The nomination of a Trustee by the Community Shop in no way affects the overriding duty of the Trustees (including any Trustee nominated by the Shop) to act independently in the manner which they consider will best further the objects of the Community Fund. As noted above, the Fund has no non-Trustee members, and decisions on the use of its funds are wholly a matter for the Trustees.

The Community Fund has not yet made any payments, but the Trustees are currently considering support for arrangements to help families in particular financial need as a result of the coronavirus emergency."

## Volunteers and the Committee

- We are really grateful to the pool of volunteers who give their time to support the Community Shop. During 2019 the number was between 40 – 60 volunteers in total giving over 200 hours a month. We are extremely lucky to have volunteers who undertake the visible roles, for example in the shop, but also to all those volunteers behind the scenes, (e.g. book-keeping, cleaning, picking up orders and delivering, dressing windows). The shop would not be so successful without the volunteers who make it what it is. New volunteers are always welcome, including to the Committee.
- The Shop Committee has remained the same for just under a year. One shareholder questioned why there had been earlier changes to the committee members. It is a well know fact that the people motivated to manage a project and be involved in the early stage set up, in our case to acquire Our Shop, are not always those that are interested in the longer term running of the business. It is also true that being a member of the Committee is a significant commitment and personal circumstances change over time resulting in decisions not to stand for a further term or resignation. Committee members are elected for a period of 3 years and can only be elected for two consecutive terms. This recognises that a degree of churn within a committee is good governance.

As an organisation we aim to be an exemplar of good governance and we often refer to experts to provide external challenge and support to ensure that we are on a journey of continuous improvement. Where we do not have these skills on the Committee we often look within the village to see if we can persuade local experts, ideally free of charge, to perform this role e.g. HR skills to support staff development, Web and social media skills to improve our use of the internet and social media.

In relation to the working arrangements of the Committee, it was agreed that some external expertise was required and we turned to Plunkett and Co-ops UK to source a consultant fully versed in the governance arrangements of Community Benefit Societies. All Committees, and we are no exception, tend to go through 4 stages in their life cycle i.e. forming, storming, norming and performing. We believe that we have benefitted from the process and have now in place strong governance arrangements, akin to those in any public body that is accountable to shareholders or membership, where the work of the Management Committee is supported by a number of sub committees including Finance and People.

## The Financials

Two members asked very specific questions relating to the Financial Accounts, For the sake of transparency we include their questions and our response:

| Question   | Our reply   |
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| In the Notes of the last AGM it was stated that the unsecured loan was to be repaid in July. Can you confirm that this happened, and that the repayment was for the full amount? | We can confirm the unsecured, interest free member's loan was paid in full and the member thanked for their generosity in supporting the cash flow of the business when a grant was delayed in being paid |
| Has a reserve fund of just over £9000 been established to pay interest to shareholders?  | In accordance with accounting principles we were unable to accrue for a proportion of the interest at the end of last year as there was no  |

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|  | evidence of a commitment to pay interest in that financial year and therefore no reserve fund was established  |
| Has a reserve fund been established to buy back shares to enable shareholders to sell their shares?  | No. The original business plan stated that we would create this reserve after 3 years of trading i.e. from 1 <sup>st</sup> April 2020 which is why this has been included in our reserve calculation for the current trading year  |
| Has the shop fully complied with the Financial Reserves Policy   | The reserve policy for 2019 aimed to create a working capital cash balance of £21k by the year end plus a general reserve of £8k to cover maintenance and capital expenditure. Cash at bank and in hand at the year end was £27,636 and the debtors figure included £4,538 relating to sales paid by credit card and newspaper vouchers that are credited to our bank account within a few days of the transaction. While we had anticipated the gradual increase of card sales it has accelerated and currently accounts for approximately 80% of sales.  |
| What was the minimum and average balance of cash held during the year?   | Cash balances varied between £7000 at its lowest and £38000. At no time during the last financial year did we have concerns that working capital was insufficient to meet our needs.   |
| There some positives in the 2019 performance such as<br>1. 7.8% growth in turnover is good. Where has this come from (shop or PO)?<br>2. Gross Margin has grown really well. Why has this been so successful?  | As per page 9 of the accounts the growth is in shop sales<br><br>The Committee and staff have worked hard to improve gross margin by increasing sales and sourcing products that contribute to an overall improvement.   |
| I am really concerned about the bottom line:<br>1. First of all, we should be clear that the Grant Income is not profit earned in the year and should not be referred to as profit when reported to shareholders. If this is discounted, then the shop made a profit of £7,125. Essentially the same as 2018 and much less than the 2019 Annual Plan and the 2017 3 <sup>rd</sup> year budget. | As previously stated the accounts issued to shareholders are prepared by our accountants in accordance with applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice). As you will be aware these differ, although the bottom line and key information is the same, from the format of the monthly management accounts used by the Committee to manage the business.<br>The Business Plan written to acquire the shop was produced over 3 years ago and based on the information available at that time. Once we began actual trading and reporting and our knowledge of the business increased cost lines changed. For academic purposes if we compared the original management accounts budget to those in 2019 (after adjustments) |

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|  | <p>you would be able to see a target profit in year 3 of £22567 compared to an actual of £20354.</p> <p>A result the committee are pleased with given the uncertainties that existed in planning pre – acquisition and also given the extra, unexpected investment made in the shop. You will recall we had to make considerable investment to upgrade freezers and other key equipment.</p> <p>Also it must be noted that the original business plan assumed three full years of trading i.e. 36 months. Because Our Shop was acquired in April 2017, the third year we are reporting upon brings us to only 33 months of trading performance.</p> <p>It is worth noting that our Management Accounts for the last quarter show that the results for the remaining 3 months of the original planning period have exceeded the initial plan.</p> |
| <p>I would like to know why share interest was not accrued in the year. This was the process adopted in the 2017 budget and the amount of interest being paid is a committed cost incurred during the year</p> | <p>See earlier comment. The original business plan assumed that interest would be payable following three years of trading. This technically ended on the 31<sup>st</sup> March 2020. Therefore, in line with that plan, we have planned to pay the interest in this financial year. This also applies to the Charity donation</p>   |
| <p>Under what circumstances would the power to Change grant be repayable?</p>  | <p>The Grant was for an initial 3 year period which expired at the end of March 2020 however they continue to monitor us for a total of 10 years as the initial grant was in excess of £100k. A clause states that if we fail to meet any of the terms and conditions of the Grant Agreement they could request a repayment of part or all of the grant. The grant was dependent on furthering the following charitable purposes:</p> <ul style="list-style-type: none"> <li>• The advancement of citizenship or community development</li> <li>• The advancement of environmental protection or improvement</li> <li>• The relief of those in need because of youth, age, ill health, disability, financial hardship or other disadvantage</li> </ul>   |
| <p><b>What processes are in place to regulate overhead spend</b></p>   | <p>The Committee set a budget for the year and expenditure is monitored against this on a monthly basis. Prior approval is required for any variable spend e.g. additional hours for staff either to cover holidays/sickness etc or for maintenance spend even if this in line with budgeted expenditure.</p>  |
| <p>How has out of date stock been treated in the year end stock valuation?</p>   | <p>In accordance with Accounting Principles stock is valued at cost. Products about to go out of date are offered for sale at a discount in order to reduce food wastage and recorded on EPOS. We monitor this each month and</p>  |

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|   | benchmark our performance against similar shops.  |
| Why are there debtors on the Balance Sheet? | See answer relating to Financial reserves and the remaining balance of £442 was mainly related to the flat above the shop which was rented out. |

On behalf of the Management Committee  
Helen Boothman  
Chair Houghton & Wyton Community Shop Ltd  
May 17<sup>th</sup>, 2020